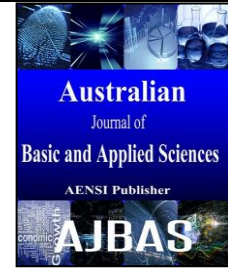




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Effect of Ownership Structure, Company size and Profitability on Dividend Policy and Manufacturing Company's value in Indonesia Stock Exchange

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ABSTRACT

This study is conducted to tests the relationship between latent variables using structural equation modeling. This study results recommend for manufacturing industry listed in stock exchange should pay attention to accuracy in determining the ownership structure, company size and profitability. Research results show that ownership structure, company size and profitability affect on dividend policy. Company size and profitability affect on company's value, while the ownership structure does not affect on company's value. Simultaneously, through dividend policy, these three variables affect on company's value. These findings provide practical implications for top management in manufacturing companies to be able to understand factors to increase the company's value listed on stock exchange. A limitation of this study is the samples only in manufacturing companies so these findings cannot be generalized to other industries. Therefore, further study is recommended to fill this gap in order to strengthen the results of this study.

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INTRODUCTION

Indonesian capital market is growing capital market with high potential to contribute to Indonesian economy. However, economic crisis in early 1997 affect on fundamental company's value, especially companies listed on stock market. This has implications on company policy, namely the difficulty to make new investments because company will concentrate to suppress the amount of debt. This condition does not satisfy stakeholders, especially the owners of company. It causes a lot of stockholders who are also included in board of directors (managerial ownership) sell the stake to public.

Company objective to list stocks in capital market is to increase company's value as reflected by its stock price (Fama and French, 1998 in Husnan, 2004). Stock market value can be used as a benchmark for actual company's value, as stated by Haugen (2001) in Maramis (2007) that company's value can be defined based on the stock price. It is because the stock price contains market expectations regarding the company future. But some internal factors often seen as an important factor to determine the stock price, it is referred as company's fundamentals policy factors with emphasis on

funding policies, investments and dividends, as well as company performance. These factors are controllable by company. Dividend is a signal to investors in stock market because the dividend payment reflects company's ability to earn income and good prospects in future. Lintner (1956) states that company try to maintain level of dividends payment because dividend reduction would give a bad signal. While company's performance factor is reflected through the profitability namely company's ability to obtain income through its business operations by using funds assets owned. Companies with high level of profitability each year have tendency to use their own capital than debt. High-growth companies have a great opportunity to pay lower dividends because they have a fund profitable investment internally, so companies are not tempted to pay larger stock profits in form of dividends (Barclay 1998). Other determinant is ownership structure because go public company has separated the ownership functions with managerial functions that led to stockholding structure.

Based on above description, these study objectives are:

1. To analyze the effect of ownership structure, company size and profitability on dividend policy

2. To analyze the effect of ownership structure, company size and profitability on company's value
3. To Analyze the simultaneous relationship of ownership structure, company size and profitability through dividend policy on company's value

Theoretical Overview:

Ability to identify the factors most responsible to determine portfolio performance was academic study in last two decades. This can help to evaluate and interpret the determinants of stock price movement. For stock assessment, investors can perform fundamental analysis with top-down approach (Jones, 2000 in Damayanti, 2013). Fluctuation of company's stock value is usually determined by change of company's earnings reflected in company's financial performance. Therefore, company's intrinsic value becomes very important measure for investors to take a decision to buy a company's stock as investment options in capital market. Company's value is reflected on bargaining power of stock. Company's value is very important because of high company's value which will be followed by a high prosperity of stockholders (Brigham and Gapenski, 1996). According Husnan (2008), company's value is prospective buyer willingness to pay the price if a company is sold. Meanwhile, according to Keown (2004), company's value is the market value of debt and outstanding equity of company.

Dividend policy is also very important policy because it involves two parties, namely the stockholders and company with different interests. To keep both interests the company can take the optimal dividend policy (Litner, 1995 in RJ, 2010). It is interpreted as the dividends payment to stockholders by company based on profit earned in form of cash or other such stock dividend and an extra dividend. Therefore, the dividend policy should be considered as an integrated part of a company's financial decisions as they relate to determination of profits proportion distributed to company.

Company's main goal is to increase corporate value through higher prosperity of owners or stockholders (Brigham and Gapenski, 1996). However, it is common the management has other goals that may conflict with the primary goal. As a result, market price can be corrected and decrease the company's value, it is a loss of agency cost of equity for company (Jensen and Meckling, 1976 in RJ 2010). Therefore, go public company needs to separate between ownership functions and management or managerial functions. According to Jensen and Meckling (1976) in Riyanto (2010), separation between ownership function and managerial functions creates agency relationship, it is a relationship where one or more (principals) hire another person (the agent) to do a job, according to interest of principal, by delegating some decision-making authority to agent.

Companies with high sales growth require the greater support of organization's resources (capital), and vice versa. Thus, company size describes the size of a company as indicated by total assets, number of sales, average total sales and average total assets (Jones, 2000 in Damayanti, 2013). Company size is magnitude of assets owned by company. Profitability is the end result of a number of policy and management decisions (Brigham and Houston, 2004). It can be said that company profitability is a company's ability to generate net income from activities performed in an accounting period.

Research Hypothesis:

Main objective of management is to enhance stockholder value through higher prosperity of owners or stockholders (principals). Company's value is investor perception of company; it is often associated with stock prices. Therefore, market value of a stock can be used as a measure of actual company's value, as stated by Haugen (2001) in Maramis (2007) that company's value can be defined based on stock price. But in reality, management is also interested in personal interests of which are charged to cost of company. Various interests makes managers may be reluctant to take more risky decisions. Jensen and Meckling (1976) stated that appointment of manager by stockholders to manage company will bring the differences of interest between managers and stockholders. Managers tend to take a decision to reinvest profits to make company get high growth, but these interests are often not in line with the wishes of stockholders. In fact, higher dividend means the less retained earnings, thereby blocking company's growth rate in earnings and stock prices. Assessment of financial performance as a result of management's decision making process above is a complex issue because it involves the effectiveness of capital utilization and efficiency of company's activities related to value and safety of various claims arising to company. One way to measure the company performance is level of profitability. Profitability shows company's ability to obtain income through its business operations by using funds assets owned by company. Companies with high level of profitability each year have a tendency to use their own capital than debt. Another assumption is also mentioned with a high return on assets, which means that net profit of company is high.

Syed and Wasim (2011) show that company size has positive influence on dividends payment. Weston and Copeland (2010) found that large or established companies tend to give a dividend payout rate higher than small or new companies. This is because larger company would be easier to enter the capital market. This opportunity makes company can pay big dividends to stockholders. Thus, dividend policy is important to meet the expectations of stockholders by not inhibiting the growth of company. Dividends

received at this time will have a higher value than the capital gain received in future, so that investors are not willing to speculate would prefer dividends rather than capital gains (Prihantoro, 2003). Various studies indicate that ownership structure affect on dividends payment and company's value (Wenjuan *et al*, 2009; and Sadaf *et al*, 2013). According Keown (2004), dividend payments does not directly produce a closer monitoring of investment made by management of company related to ownership structure. Ownership structure consists of managerial ownership structure and institutional ownership structure. Managerial ownership structure is the largest stock ownership

structure owned by company management, while institutional ownership structure is the largest stock ownership structure owned by institutions outside company. Management of go public companies has separated the ownership functions and managerial functions that led to stockholding structure. The separation may cause a conflict of interest between owners and managers, which results in a decrease in stocks value.

Based on above description, conceptual framework of study is illustrated in Figure 1. Research hypotheses are explained below.

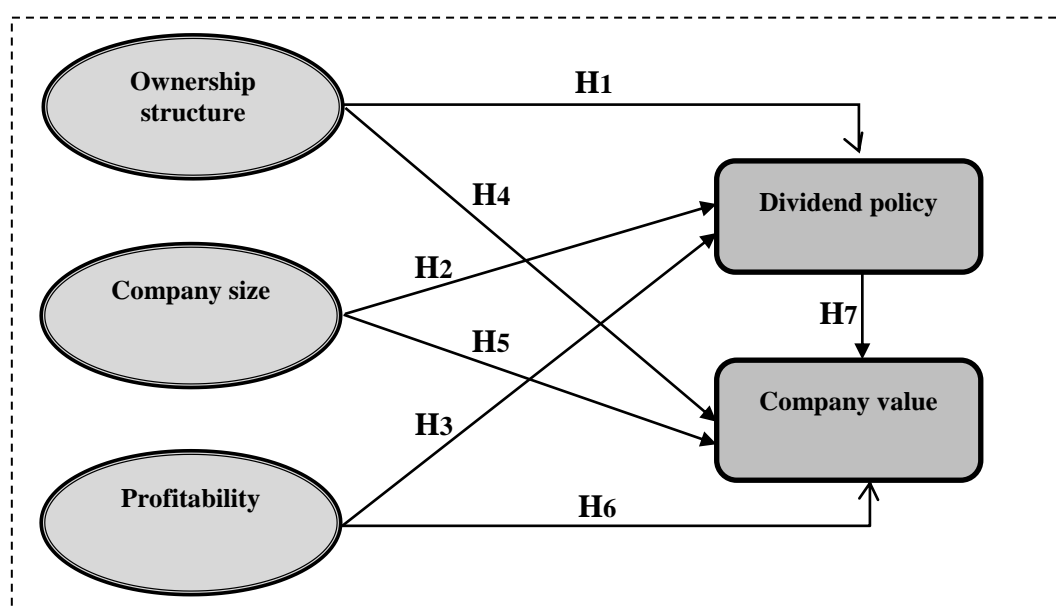


Fig. 1: Conceptual framework of research.

H1: Ownership structure significantly affect on dividend policy.

H2: Company size significantly affect on dividend policy.

H3: Profitability significantly affect on dividend policy.

H4: Ownership structure significantly affect on company's value

H5: Company size significant affect on company's value

H6: Profitability significant affect on company's value

H7: Dividend policy significantly affect on company's value

Methodology:

Operational definitions and measurement:

This study is data observation to test the causality characteristics and object of study population represented by companies listed on Indonesia Stock Exchanges (IDX). Based on research objectives, data is measured operationally through measurement variables: ownership structure, company size, profitability, dividend policy, and company's value, as shown in Table 1.

Table 1: Variables and instruments measurement.

Measurement variables	Indicator items		Measurement formulation
	Notation	Description	
Ownership structure; percentage ownership of stocks held by investors	SKM	Managerial Ownership, stock ownership by management companies as measured by percentage of stocks held by management.	(Total KM / total outstanding stocks) x 100%
	SKI	Institutional Ownership, ownership by government, financial institutions, and institutions are legal entities, foreign institutions, trust funds and other institutions at end of year.	(Total KI / total outstanding stocks) x 100%
	SKP	Public ownership, ownership by general public or outside parties.	(Total KP / outstanding stocks) x 100%

Company size; a scale to classify the companies size	TTA	Total Assets, all company resources for its operations, it is measured by value in rupiah units	-
	MDL	Capital, overall value of company liabilities to produce income that measured in rupiah.	-
	TTP	Total sales, sales achieved by company that measured in rupiah	-
Profitability; company ability to earn a net profit of activities undertaken	ROE	Return on Equity, ratio measurement of income received to capital invested by owner in company.	$(EAT/total\ equity) \times 100\%$
	ROA	Return on Assets, a ratio to shows how much company earned net income as measured by value of assets.	$(EBIT/total\ asset) \times 100\%$
	EVA	Economic Value Added, an increase in value or value added of capital that has been invested in company's operations.	$NOPAT-(WACC \times Invested\ Capital)$
Dividend policy; decisions about how much profit is distributed to stockholders as dividends and how much retained earnings to be reinvested in company	DPR	Dividend Payout Ratio, dividend rate, calculated as the ratio between dividend payments divided by company earnings.	Total Dividend / Net Income
	DYL	Dividend Yield, a ratio to connects the dividends payment and price of common stock	dividend per stock / price per stock x 100%
Company's value; company's ability to create value in community (investors) or on stockholders	PBV	Price-to-book value, indicators to assess company is a comparison of market price of a stock to its book value	Comparison of stock market price and book value per stock
	PER	Price Earnings Ratio, describes the market appreciation of company's ability to generate profit	stock closing price / earnings per outstanding stock
	RTS	Income earned by stockholders as a result of its investments in a particular company	$(Pt - Pt-1) / Pt-1$

Sample and Data:

Secondary data of financial data is obtained from Indonesian Capital Market Directory period 2011 - 2013 and Jakarta Stock Exchange Website. Three years time interval is used to prevent uniqueness results in particular year. Data was collected from October 2014 to December 2014. Total 140 manufacturing industries were listed in Indonesia Stock Exchange (IDX) up to December 2013. Samples of 45 companies were chosen with purposive sampling technique to combines between the cross section and time series (pooled data). Selected samples must meet the following criteria:

1. Listed in IDX continuously from year 2011 to 2013
2. Publish financial statements each year during 2011-2013
3. Every year pay dividends for year 2011-2013
4. Do not loss for years from 2011 to 2013, because it will cause financial performance and company's value became negative
5. Use rupiah currency in financial statements for year 2011-2013.

Samples and data variable measurement are described in Table 2.

Table 2: Data Description

Variables	Indicators	Average per companies / year			Average
		2011	2012	2013	
Ownership structure	Managerial ownership (%)	71.52	70.65	70.24	70.80
	Institutional ownership (%)	6.64	6.72	6.42	6.59
	Public ownership (%)	26.15	26.30	26.65	26.36
Company size	Total assets (Billion Rp)	148.73	126.36	135.70	136.93
	Capital (Billion Rp)	119.14	141.09	156.74	138.99
	Total sales (Billion Rp)	133.70	130.74	144.77	136.40
Profitability	Return on equity (%)	26.18	27.58	19.72	24.49
	Return on assets (%)	13.61	14.02	17.74	15.12
	Economic value added (Billion Rp)	120.29	126.12	125.43	123.94
Dividend policy	Dividend payout ratio (%)	33.33	35.47	33.11	33.97
	Dividend yield	3.74	2.52	3.12	3.12
Company's value	Price to book value	3.61	4.87	4.76	4.41
	Price earnings ratio	14.20	15.22	16.54	15.32
	Stock Return	0.26	0.56	0.25	0.35

Confirmatory factor analysis:

Structural equation modeling (SEM) with maximum likelihood method and AMOS 16.0 statistical software (Anderson and Gerbing, 1988) are used to test feasibility of data conformity with structural model. Tests related to psychometric

properties of measurement instruments are reliability, dimensional, convergent and discriminant validity. Model fit is good if chi-square is small and non-significant at $\alpha = 0.05$ with the probability value ≤ 0.05 . The results of confirmatory factor analysis show the model fit is very good, as shown in Table 3.

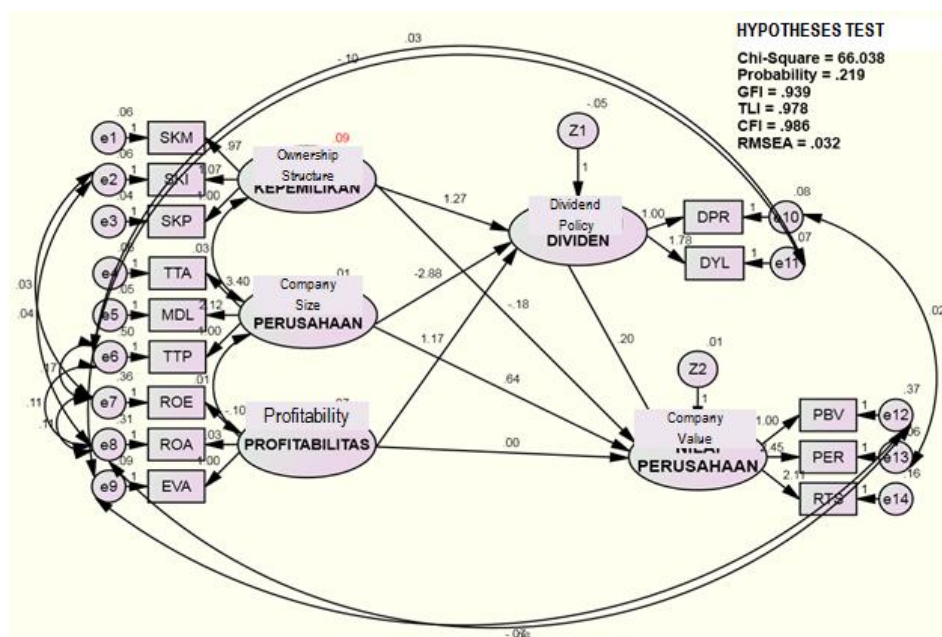
Table 3: Testing results of goodness of fit measurement)

Indicators	Loading Factors (λ)	Critical Ratio	Probability (p)	Description
Ownership structure				
SKP	1,000	Fix	0,000	Significant
SKI	1,059	8,620	0,000	Significant
SKM	0,919	8,372	0,000	Significant
Company size				
TTP	1,000	Fix	0,000	Significant
MDL	2,262	1,381	0,017	Significant
TTA	5,092	0,857	0,031	Significant
Profitability				
ROE	1,215	1,381	0,027	Significant
ROA	2,162	0,857	0,036	Significant
EVA	1,000	Fix	0,000	Significant
Dividend policy				
DPR	1,000	Fix	0,000	Significant
DYL	1,863	2,361	0,000	Significant
Company's value				
PBV	1,000	Fix	0,000	Significant
PER	3,627	0,877	0,030	Significant
RTS	5,168	0,766	0,044	Significant

Research Findings:

Hypothesis testing results (Table 4) with structural equation models (figure 2) and using AMOS 16 software shows that ownership structure significantly affect on dividend policy with a p value of 0.014. Adversely, ownership structure does not affect significantly on company's value with p value of 0.455. Furthermore, hypothesis testing also showed that company size and profitability affect on dividend policy, respectively with p value of 0.030

and 0.016. In addition, company size and profitability also significantly affect on company's value with a p value of 0.027 and 0.039. Dividend policy affects on company's value with a value of p = 0.048. Although ownership structure directly does not affect significantly on company's value, but the test results show that indirectly through intervening variable dividend policy, ownership structure has a significant effect on company's value.

**Fig. 2:** Path diagram of structural equation model.**Table 4:** Hypotheses test results the effect between variables

Variables		Direct Effect			
Exogenous	Endogenous	Standardized	C.R	P value	Description
Ownership structure	Dividend policy	2,346	0,289	0,014	Significant
Company's value		-1,887	-0,214	0,030	Significant
Profitability		1,897	0,277	0,016	Significant
Ownership structure	Company's value	-0,463	-0,747	0,455	Insignificant
Company size		0,594	0,762	0,027	Significant

Profitability		0,282	1,254	0,039	Significant
Dividend policy	Company's value	0,007	0,053	0,048	Significant
Indirect Effect					
Variables	Variables	Variables	Direct Effect	Indirect Effect	Description
Exogenous	Endogenous	Intervening			
Ownership structure	Company's value	Dividend policy	0,463	0,662	Significant
Company size	Company's value	Dividend policy	0,594	0,532	Significant
Profitability	Company's value	Dividend policy	0,070	0,535	Significant

Referring to test results (Table 4), it show that hypothesis has significant relationship at 95 percent confidence level. In other words a structural equation associated with the dividend policy and company's value revealed that 95 percent of variance can be explained by effect of ownership structure, company size and profitability. In this case, effect of dividend policy on company's value is an intervening variable.

RESULTS AND DISCUSSIONS

Table 4 shows analysis of 14 indicators related to ownership structure, company size, profitability, dividend policy and company's value. It creates a solution to explain effect between these variables.

Effect of ownership structure, company size and profitability on dividend policy:

Hypothesis testing results show that ownership structure, company size, and profitability significantly affect on dividend policy. These test results indicate that partially dividend policy is strongly affected by ownership structure, company size and profitability. In this case the company size describe the size of a company indicated by total assets, number of sales, average total sales and average total assets (Ferry and Jones, 2001). Company size is magnitude of assets owned by company. These findings also support the idea of Syed & Wasim (2011) that company size has positive effect on dividends payment. Weston and Copeland (2010) found that large or established companies tend to provide higher level of dividend payments than in smaller or new companies. Managers tend to take a decision to reinvest profits in order companies have high growth, but these interests are conflict with stockholders desire. In fact, higher dividend means the less retained earnings, thereby blocking company's growth rate in earnings and stock prices. It may become an indication that ownership structure is crucial to company managerial decisions related to dividend policy. This finding is consistent with the opinion of Jensen and Meckling (1976), that appointment of manager by stockholders to manage company will create differences of interest between managers and stockholders. Assessment of company's financial performance as a result of management's decision making process is a complex issue because it involves the effectiveness of capital utilization and efficiency of company. Therefore, profitability becomes an indicator of company ability

to makes a profit through its business operations by using the fund assets that vital to dividend policy.

Effect of ownership structure, company size and profitability on company's value:

Hypothesis testing results showed ownership structure does not have significant effect on company's value, but company size and profitability significantly affect on company's value. These test results indicate that partially manufacturing company's value depends on company size. This is possible because a large company would be easier to enter the capital market so that with this opportunity company pays big dividends to stockholders. This happens because of easiness to handle capital markets that have greater flexibility in ability to obtain funds in short term. Larger companies can seek dividends payment greater than a small company. Meanwhile, effect of profitability on company's value can be viewed as the need for companies to analyze reports on financial statements, due to financial statements is one of tools used to measure the performance of company. Through profitability, companies can assess the company ability to makes a profit through its business operations by using the fund assets. Another sense also mention that profitability demonstrate company's ability to generate profits and measure the level of operational efficiency and efficiency to use its property (Masdar, 2008).

Simultaneous relationship of ownership structure, company size and profitability through dividend policy on company's value:

Hypothesis testing results also show that dividend policy, an intervening variable, has significant effect on company's value. This test results suggests that dividend policy is very important because it involves two parties, namely the stockholders and company management with different interests. To keep both the interests, company can take the optimal dividend policy (Litner, 1995 in RJ, 2010). Dividend policy should be considered as an integrated part of a company's financial decisions as they relate to determination of proportion of profits distribution. This test result also support the simultaneous effect of ownership structure, company size and profitability through an intervening variable dividend policy on company's value.

Conclusions:

This study results provide practical implications for top management of manufacturing companies listed on stock exchange to be able to understand factors to increase the company's value. To increase company's value, management of manufacturing industry should give more attention to ownership structure and company size, profitability, and dividend policy. This study limitation is the samples only manufacturing companies so that these findings cannot be generalized to other industries. Therefore, further study is recommended to fill this gap in order to strengthen the results of this study.

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